

# TRANSITION TO THE MARKET ECONOMY AND THE CHANGES IN THE EDUCATION: THE CASE OF THE BALTIC STATES AND LATVIA IN PARTICULAR

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## Abstract

The paper is analyzing main characteristics of the education development in 3 Baltic States throughout 3 periods: National independence period between two World Wars, Soviet period and restitution of National States. The theories of human capital are used to explain the attitude to the education. The role of universities during the transition to market economy was changed. The professional changes in labor market can be observed. The education and the qualification are the necessary preconditions of competitiveness.

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**Keywords:** Baltic States, Latvia, transition, human capital, education

## Introduction

The aim of the paper is to analyze the impact of the transition process to a market oriented economy on the education system at the universities in one particular region of Central and Eastern Europe: Baltic States. For those 3 countries the historical aspect of their development is crucial because Estonia, Latvia and Lithuania are representing a particular case. These countries, having Nordic cultural and economic traditions and development dimensions during 50 years were not only excluded from a normal market economy enrollment but they lost their national independence and were incorporated in the territory of another country, USSR. For this reason the restitution of the previous system (which existed before the annexation by Soviet Union) has had a big impact on the re-established States, public systems, legal mechanisms, market structures, public opinions and orientations, system of education included. The paper is reflecting interdisciplinary approach to the development of education.

## Human capital and its reflections during the periods of development of labor force

The importance of education for the development and economic prosperity on individual or on State level is studied during the centuries. We can see 3 main streams in the development of human capital concepts: 1. Classical approach is starting with concepts of Plato (428-348 BCE) or Aristotle (384-322 BCE), in which the education is one very important element of a State's model, social stratification and professional segmentation. A.Smith (1723-1790), in describing the processes of the wealth accumulation, is showing the education as a crucial factor of wages and at the same time the element of fixed capital (we can consider it as an investment in qualification) (Smith, 1993). 2. The development of concept of human capital itself. Different schools in the second part of 20<sup>th</sup> century are accentuating the education as an investment in human capital by 2 main trends: 1) microeconomic approach, for ex., G.Becker, J.Mincer and 2) macroeconomic approach, for ex., R.Lucas, R.Solov (Šavriņa, 2005) During the 90's and at the beginning of 21<sup>st</sup> century, the main attention is paid to the financial side of education and the impact of education on the economic growth: T.Schulz (Schulz, 1992, 1994), W.Hwang, S.Liao, M.Huang (Hwang, Liao,

Huang, 2013), J.Soares (Soares, 2003). 3. The problems of forced introduction of liberal approach on different economic and social levels related with development of globalization, the problems of transition and marketization are shown via the discussions about the State's role, new appearances of inequality in the possibilities of access to education: G.Williams (Williams, 1997), F.Thompson, W.Zumetta (Thompson, Zumetta, 2001), L.Yang, B.McCall (Yang, McCall, 2013). We consider that the discussions about the repartition of State and private sector responsibilities in the context of efficiency and equity of education will be developed in greater detail after the global crisis.

The elements of all 3 mentioned streams of conceptual approaches can be seen in the case of changing attitude towards education in Baltic States through 3 historical periods.

**1<sup>st</sup> period:** At the end of the First World War, the three Baltic States finally obtained their political independence and national States were created (Estonia declared its independence on 24<sup>th</sup> of February 1918, Latvia on 18<sup>th</sup> November 1918 and Lithuania on 16<sup>th</sup> February 1918). Before that the territories of Baltic States were submitted to multiple powers and influences (Vikings, catholic religious ordains, Germans), their parts were incorporated in different countries such as Denmark, Sweden, Poland or Russian Empire. They had finally unified their territory without a previous experience. The exception was Lithuania: the Great Polish Lithuanian duchy was one of the dominating powers in Europe during few centuries until 1795 but the Lithuania created in 1918 was only a small part of this territory and a part of Lithuanian territory because another part was under Poland and Germany.

After the creation of independent States we can see the impact on the system of education by several factors. First, by the stable traditions of education due to the impact of religion, the result of influence of Protestantism since the beginning of 16<sup>th</sup> century was the fact that the illiteracy was not possible in Estonia and Latvia. Second, a previous development of higher education. In Estonia, the first university was reestablished in Tartu in 1802 on the base of Academia Gustaviana existing since 1632. In Latvia, the traditions of higher education and research existed through highly respectable institutions such as Riga Politechnicum (1862), pedagogical seminaries or different academic research societies since 18th century but didn't have universities. Latvians obtained their university education mainly in Tartu in Estonia (often reaching this university by feet) or in Saint-Petersburg in Russia, sometimes in German universities. In Lithuania, the traditions of higher education were developed in Vilnius university (1579) but Vilnius is attributed to Poland and is not the part of independent Lithuania in 1918. Third, the traditions of maritime schools. Krisjanis Valdemars (1825-1891), Latvian economist theoretician and practitioner of maritime affairs, was one of the representatives of the Latvian national social movement "New Latvians" favoring the "awakening" of national self-conscience and self-confidence, created the first maritime school in Ainazi (in Latvia, on the border with Estonia) in 1864, this was the first maritime school in the whole Russian Empire where he created 65 schools. Taking classical production factors and land-labor-capital from classical political economy as background, he considered that for Latvians and Estonians the sea was a relatively free area in which they can have an advantage. For this reason, under the conditions of absence of capital, the main factors for economic development could be sea-labor-diligence (+education). Those maritime schools educated captains and helmsmen.

The independent development of the three Baltic countries was short (22 years until Soviet occupation in June 1940) but this period is remarkable by its efforts, achievements and success. In result, independent and stable economies, legislations and governmental structures were established. For this reason this period is treated positively in people's memory. The same characteristics can be seen in the system of education. The education itself was considered valuable to begin with. It serves as means for prosperity but not only (for example, during the crisis in 1929-1933, Latvian government specifically took care of the educated people by creating particular employment programs for the so called "intelligent unemployed")

people). For this reason, one of the first decisions of the new government of Latvia was the creation of university in 1918. The importance of this university is high: 1) the university has the name of country in its name: University of Latvia, 2) this is the first university in three Baltic countries in which the education is presented in national language (not in Russian, German or Polish as in previous education establishments in Estonia, Latvia and Lithuania).

Resolving another problem stemming from history, the agrarian reform is executed in three Baltic countries. The possibility to have a land ownership is considered as a measure to ensure the social and historical justice and for this reason a large social class of farmers is appearing. To satisfy the needs of science grounded elaboration of land and to have higher agricultural productivity, the Academy of Agriculture was established in Latvia in 1936 by moving the Faculty of Agriculture from University. Lithuanian University of Agriculture was established in 1924. The tradition was that the oldest son of a farmer was sent to the university to become certified in agriculture which would ensure continuity and sustainability of knowledge based professional agricultural production by dynasty, even if it was only the second generation of land owners.

Another characteristic of education system was the development of women's education. The appreciated role of a woman in the family and in the society was ensured by traditions but the attribution of voting rights to women in Baltic States since the very beginning of national independence allowed additional opportunities for female education. The first female student corporations in the world were created In Latvia. Pedagogy, health care but especially housekeeping were the main fields of professional female activity. Not only the faculty of Economics but the housekeeping schools formed the managers where the knowledge of economics and accountancy was an important element of education. Here we can see the development of ideas of Aristotle (Aristotelis, 1985) of rational housekeeping by the opposite gender dimension.

In addition, attention was paid to the development of informal education system: the aim of "People's universities" were the dissemination of knowledge by university level courses free of charge and particularly in countryside. These courses were organized by enthusiastic university professors and well known personalities.

In result, the structure of employment in Baltic States was as follows: main occupation was agriculture and forestry (58,0% in Estonia in 1930, 65,9% in Latvia in 1934, 79,4% in Lithuania in 1928), industry and mines (17,2% in Estonia, 13,5% in Latvia and 6,2% in Lithuania), trade and maritime (4,9% in Estonia, 5,7% in Latvia and 2,4% in Lithuania) (Latvija citu..., 1939). By the number of university students per population of 10 000, Latvia occupied the 1<sup>st</sup>, Estonia - the 2<sup>nd</sup>, Lithuania – the 7<sup>th</sup> place in Europe in the 30's. By the total number of students the University of Latvia occupied the 15<sup>th</sup> place in the world (Central Statistical Bureau of Latvia, 2002).

**2<sup>nd</sup> period:** The second period of development of labor market in Baltic countries is related with crucial changes in politics, economy and society. On the political level, the three States lost their national independence due to the Soviet occupation in June 1940 and reestablishment of Soviet regime at the end of the Second World War in 1944-1945. By this incorporation in the frame of USSR, Baltic States lost their national borders, national army and independent national legislation. On the economic level, the changes were even more important because all three countries passed from market economy to another socio-economic system: forced planned economy. They lost their national money and banks, the private ownership of production means was not possible. The private enterprises and farms disappeared by the process of nationalization and the kolkhozes (collective farms) replaced them. On the social level the main changes were 1) the loss of population by the soviet executions and deportations and the emigration to escape from soviet regime during the 1940s and 2) planned immigration from other regions of Soviet Union to ensure the massive production in soviet factories.

If the ethnic population was dominating in the 3 independent Baltic States, they became minors during the Soviet period: in Estonia the Estonians were 88,2% in 1934 and 64,7% in 1979, in Latvia the Latvians were 75,7% in 1935 and 53,7% in 1979, in Lithuania the Lithuanians were 80,6% in 1923 and 80,0% in 1979 (Levits, 1989). As we can see, the population of Estonia and Latvia was replaced by one half and this fact has an enormous impact on ideology, opinions and system of values. 3 factors have had major impact on the labor market: 1) employment as an obligation: unemployment is not existing, 2) as the prices are not established by demand and supply but by the government, they are not negotiable and not changing: the salary as the price of labor force is subordinate to the same rules, 3) system of repartition existing under the conditions of ordered economy is attributed to the goods and to the labor force: the graduates of technical schools and institutions of higher education are designated to a specific workplace and the specialists are moved from one workplace to another by the ministry.

Due to the ideology which accentuated the value of physical work, the system of salaries was remunerating more physical than intellectual work. In people's minds, the attitude towards work duties was changed because of no competition in the conditions of an unchanging monthly salary without relation to work efficiency. In addition, the big Soviet factories proposed a lot of social facilities for the workers, such as place in kindergarten, new apartment (in Soviet Union, the problem of obtaining flats was extreme; it was usual that, for example, 3 generations were living in the same flat or sometimes in the same room in cases when the family was living in the so called "communal flats" where few separate families were living together by necessity, not choice). Prestigious working places were in shops, restaurants and cafeterias because of possibility to have the access to unique goods when the deficit of all kind of goods was permanent.

The structure of economy by sectors in Baltic Republics in 1980 was the following: industry was representing 63,8% in Estonia and 65,6% in Latvia, 57,2% in Lithuania in 1979; agriculture – 16,7% in Estonia and 16,0% in Latvia, 23% in Lithuania in 1979; construction – 7,9% in Estonia and 7,4% in Latvia, 9,3% in Lithuania in 1979 (Latvijas Padomju..., 1985).

The system proposed the education for free. The higher education was attributed without payment of tuition but some inconveniencies were observable: 1) the student groups were limited and high competition was observable to become student, 2) the working people and demobilized soldiers had privileges to entrance examination, 3) the boys were going to studies to escape from military service in Soviet army, choosing studies outside their field of interest, instead aiming for the lowest entrance competition, 4) for the young people from rural area the studies were an advantage and a disadvantage at the same time: some of them received the so called "pass from kolkhoz" which ensured guaranteed studies without entrance competition but the field of studies was restricted by the needs of kolkhoz with the obligation to come back and work in the same kolkhoz.

The studies were organized in 3 forms: fulltime studies, part time studies during the evenings for the working people and part time studies by correspondence with some presence time sessions. All first year fulltime students (and sometime students from older years too) together with some teaching staff were sent to the kolkhozes in September for harvesting and only after that the studies started up. As fulltime students were not allowed to work, the possibilities to earn the money for the students were proposed and organized by universities during summertime such as student units in construction, student units of train attendants, student stewardess units in aircraft service. Those units have a commander and commissaries to ensure the ideological aspect. The gatherings of units were organized on different levels. For the political reasons, special unities were organized for the work in far geographic distance (for example, the students of University of Latvia were sent to Kabardino-Balkarian Autonomous Soviet Socialist Republic in Caucasus to work in a vegetable canning factory). One special unit was organized on the level of Republic in which the representatives from

different universities were engaged to work in the construction works in the Gagarino city in Russian Federation (the native town of the first cosmonaut Yuriy Gagarin).

As we could see, prominence was given to the physical work by policy, ideology and remuneration. The collectivism was taught in different ways to ensure the common thinking. At the same time the higher education was an opportunity to achieve some independence in thinking by the received knowledge. If the salaries for intellectual work in Soviet Union were low (the opposite to the concepts of intellectual capital), the higher education proposed the possibility to become a part of intelligentsia and the knowledge was the unique kind of property which could not be taken away.

**3<sup>rd</sup> period:** The third period of development of education system was closely related with the reconstruction of market economy. This period, starting at the beginning of 90`s in Baltic States, was not only the change of socio-economic system as in countries of Central Europe. The predominant element of all changes was the restitution of national State: political independence with positive historical memories for economic success, self-confidence and hope on restitution of the previous system of values. At the same time, the development of world economy under the conditions of globalization was imposing its roots.

### Changes in education in Baltic states

The new period of development of education during the transition to market economy has a strong influence of three characteristic elements of each periods : 1) the system of values and its impact on the structure of labor force by the sectors of national economy throughout the education during the period of the first independence between the two World Wars; 2) the changes in labor force and their impact on ethnic structure during the Soviet period; 3) the reconstruction of market oriented economy under the conditions of globalization and regional integration and its impact on education system. Main principles are similar for three Baltic States but more detailed analyses will be given about Latvia.

### Requirements for the education due to transition to the market economy

The transition to the market economy in the Baltic States during the 90`s can be characterized by three fundamental orientations:

- 1) The interruption with previous system changing the geopolitical priorities for economic relationship;
- 2) The establishment of market relations and diminution of State`s intervention
- 3) The openness of national economy and its integration in global economic processes on their world wide causality and supranational institutional level.

The impact of all three mentioned orientations can be seen in the structural changes in national economy which, by their side, provoked changes in the structure of labor force.

*Dynamics of changes in employment structure in Latvia (% of employed people)*

	1990	2000	2012		1990	2000	2012
Agriculture	16,5	13,2	2	Hotels and restaurants	4,3	2,5	...
Forestry	*	1,5	*	Transport and communication	7,5	8,2	9****
Fishing	0,9	0,6	...	Financial services	0,5	1,6	...
Extracting industry	0,3	0,2	3**	Real estate sector	5,7	5,5	...
Manufactory Industry	26,5	16,2	14	Public administration, defense, social insurance	1,5	6,1	25*****
Energy	1,0	1,7	...	Education	7,2	8,4	...
Construction	9,7	6,3	7	Public health	4,8	5,7	...
Commerce	7,7	16,7	20***	Other services	5,9	5,6	20

Source: Ministry of Economics of Latvia

\* Forestry is counted together with agriculture

\*\* Other industry

\*\*\* Commerce and accommodation, catering

\*\*\*\* *Transport and storing*

\*\*\*\*\* *Public services*

1) The demand for labor force reduced during the 90s caused by transition to a new economic model characterized by: a) no more enormous factories aided by State's subsidies and b) having a rational staff structure. 2) In the new conditions the labor force became free to make its choice but its quality is not always corresponding to the new demands. New professions are created without response of supply from labor force. 3) At the same time 3 sectors are growing very rapidly: a) construction, b) commerce, c) financial services. The growth reasons are different for each mentioned sector (Šavriņa, 2002). Those changes have their reflection in the system of higher education. While some decrease was observed for the access to primary education, the number of students at universities increased spectacularly. Main fields of interest are in social sciences: economy, management and law.

During the first decade of 2000s, the professional changes in the labor market in Latvia were studied. Through analysis of primary data (ESF project about labor market studies in Latvia, professional mobility) the professional changes and their influencing factors are shown during the time period of 2000 – 2007 (Darba tirgus..., 2007). As one of researchers of this project we consider that the professional mobility in Latvia is observable between the same professions but the deficiency is not in the same group of professions:

<i><b>Incoming professions</b></i>	<i><b>Outgoing professions</b></i>	<i><b>Professions with the biggest deficiency</b></i>
<ul style="list-style-type: none"> <li>• Salesperson</li> <li>• Financial specialist</li> <li>• Builder</li> <li>• Driver</li> <li>• Assistant, cleaner</li> <li>• Security service</li> </ul>	<ul style="list-style-type: none"> <li>• Salesperson</li> <li>• Driver</li> <li>• Textile and cloth manufacturers</li> <li>• Builder</li> <li>• Cook</li> <li>• Financial specialist</li> </ul>	<ul style="list-style-type: none"> <li>• Nature scientists</li> <li>• Engineers</li> <li>• Architects</li> <li>• Electrical engineers</li> <li>• <i>Construction specialists</i></li> <li>• Computer engineers</li> <li>• Mechanics and locksmiths</li> <li>• Medical doctors</li> <li>• Nurses</li> <li>• Researchers and University teachers</li> <li>• School teachers</li> <li>• Specialists of civil defense</li> <li>• <i>Security service</i></li> </ul>

Deficiency of mentioned professions is closely related with the education process and the development of study programs.

### **Changing role of Universities**

During all those changes in Baltic States the universities had a crucial role. First, the legal status of a university was re-established (including its own Constitution). After that the universities were free to make changes: 1) the passage to bachelor-master-doctoral studies system in the middle of 90s, earlier than Bologna requirements in EU, 2) the creation of new studies programs, 3) the changes of the content of education, 4) international openness. In addition, the specific aspect for Baltic States is the studies language because with the restitution of a National State it was necessary to make strong changes in the legislation to fulfill the requirement that the main studies language is the National language.

Historically, 3 models of financing higher education are observable: a) directive model, b) continental model and c) Atlantic model (Dahlin, 2006). If the directive model is related with a strong State control in such areas as administration, wages, number of students at the universities, the continental model contains State supervision under the education system while at the same time allowing academic liberty. The Atlantic model is accenting financial aspects: the State is showing liberal attitude towards universities, the main regulator

is becoming the payment source.

Putting such historical construction on the case of Baltic States we see that the directive model is observable during the Soviet period as a typical aspect of ordered economy.

The continental model was present during the first independence period and we would like to pay the attention to the fact that the restitution of National State contains the restitution of status of universities too, which means that the continental model could be developed again. At the same time the influence of economic liberalism (marketization) and the influence of US in the processes of globalization via development of the world economy and the impact of world-wide organizations are pushing to accept the Atlantic model. For this reason we are seeing the coexistence of both models as a mixture with some predominance of elements from continental model in 90`s and with dominance of pro-Atlantic attitude in 2000`s. We can recognize the same similarities for the welfare system: the emerging welfare system of CEE countries is not derived from the European model but is instead influenced by the model presented by international financial organizations (IMF, WB) and instead of “socialistic” equity with “free” access for everybody the preference is given to economic efficiency – necessity to pay for social services (Šavriņa, Kalnmeiere, 2007).

F.Thompson, W.Zumetta (Thompson, Zumetta, 2001) are recognizing that in the conditions of insufficient financial resources, the creation of private universities is based on 2 functions: 1) access to higher education for a maximal amount of students, 2) elite education in special fields. We consider that in the case of Baltic States (and in other countries of CEE) the main task of private education is the first one. Mass higher education is becoming the main particularity of universities (both State and private) with their costs and benefits. In the year 2012 in Latvia 17 universities (+17 colleges) are public and 16 (+ 8 colleges) are private but 69% of bachelor students are studying in public universities and colleges and 31% studying in private institutions (for master studies the repartition is 83% versus 17%) (Ministry of Education and Science of Republic of Latvia, 2012).

In the case study of Latvia, the most part of students are paying tuition. The year when the number of people studying from own expenses decreased the number of State financed students was academic year 1997/1998. In 2012/2013 63% of all students are studying for their own money and 37% are financed by State (Ministry of Education and Science of Republic of Latvia, 2012). For this reason, the changes in the studies organization process are made: 1) studies only during evening for master students, 2) full time studies during the weekends, 3) State support for students and jobseekers. The advantages and disadvantages for the studies in public and private universities in Latvia can be the subject of another research.

One particular aspect is the necessity to develop the entrepreneurial skills trough the system of education. This is not only due to the market economy; an additional aspect, specific for the Baltic States, appears. The restitution of private ownership by the means of denationalization (the restitution of property rights to their previous owners or to their descendants) is showing the necessity to ensure the continuity of family business (real estate, enterprise and farming). It`s necessary to develop the potential of students to entrepreneurial activity and to own a business start-up. The necessity to develop life long learning system is important.

A particular aspect is the creation of regional universities in order to maintain the young people in their regions and to develop economic activity there. The experience of 20 years is showing that the reality is not meeting the expectations: 1) after the finishing the regional universities the young people are coming to the capital Riga, 2) intra-regional migration is very strong, 3) a balanced regional development is under question, 4) it is now clear that the number of universities in the country is too high. This target can provoke the deepening of another problem: due to the new financial situation at the universities, one of the problems already is the change of generations of teaching staff and the diminishing number of the researchers.

New challenges for the education are appearing with the new dimension: the “new competitiveness” resulting the investments in human capital (in education) related with technologies, quality of services, macroeconomic environment as the pushing factor for competitiveness for individuals, businesses and National economies on international scale.

## Conclusion

Main benefits of transition to the market economy in the field of education are the free choice and the hope to have adequate remuneration for the job requiring correspondent level education. In such conditions main social class of welfare society must be created and developed: the middle class. The representatives of intellectual work have expectations to be appreciated and to achieve convenient position in the stratified society. The analysis of the equity and the accessibility to higher education in the Baltic States during the period of transition and adjustment to the conditions of globalization and economic openness permits making the following main conclusions:

- General picture of the actual higher education in the Baltic States is representing a modern system, corresponding to the international standards whose functioning is closely related to EU aims and expectations for the education. The goal of Baltic States to be reintegrated again in the European and Western society after 50 years favored the introduction of bachelor-master studies system at the beginning of 90`s, which is earlier than in most of the Western European countries.
- At the same time, strong influence comes from previous periods (1) first independence before the Second World War, 2) Remains of Soviet regime is observable in the nowadays system of higher education in Baltic States.
- Development of market economy required to form a large group of specialists whose existence was not possible in ordered economy: managers. The need to have management knowledge during the transition period for all kinds of activities (medicine, culture, education, farming, etc.), in addition to their main job activities, created an excessive demand for the management studies covered by a large supply of education possibilities. Life long learning is one of elements of this new system.
- Liberty of choice and marketization created mass higher education as new phenomenon, losing on the quality and deepness of education. The result of this is the overproduction of specialists in social sciences, overproduction due to the surplus of establishments of higher education.
- After the transition period to the market economy has been accomplished and as the economies of Baltic States are already integrated in EU since the beginning of 2000`s, the main aspect of investments in human capital as postulated by human capital theories – that the investments in education should be ensuring a corresponding level of salary as a revenue from those investments for the individual - is not attained.

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